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SUBJECT: TURKEY: SCENESETTER FOR CODELS BEREUTER, HASTERT, ISSA, SMITH

1. Summary: Turkey's Nov. 3 national elections produced a landslide victory for the Islam-influenced AK Party, which thus far has chosen to follow a reasonable path with emphasis on EU membership. The economy is on eggshells, and the new government will need to stick to the IMF-backed reform program to avoid another crisis. Turkish officials are concerned about the possible negative effects on the economy of an operation in Iraq, stress the need for international legitimacy and a mandate from the UNSC, and state their preference for a peaceful process of disarmament. End summary.

Domestic Political Snapshot

2. Islam-influenced Justice and Development (AK) Party's landslide victory and Establishment standard-bearer Republican People's Party's (CHP) distant second-place finish in Turkey's Nov. 3 general elections cuts the number of parties in parliament back to only two for the first time in decades. More than anything else, AK's victory reflects broad public dissatisfaction with business as usual: in particular on pocketbook issues, corruption, and the tired direction given by a group of political leaders, some of whom have been on the scene for over 40 years. AK has made the drive for EU membership -- including passage of necessary economic and political reforms -- its top priority. AK leader R. Tayyip Erdogan is currently not eligible to stand for Prime Minister because of past legal problems, stemming from his conviction for the public recitation of a poem. However, AK will form a government with almost the two-thirds majority needed to allow it to amend the Constitution (to restore Erdogan's political rights), and may be able to find the remaining votes needed from independent M.P.s. Final election results show that (1) 45% of the votes cast will not be represented in the new parliament because they went to parties unable to cross the 10% vote threshold; (2) upwards of 60% of the vote went to non-Establishment parties; (3) the traditional center-right parties, which have dominated Turkish politics for generations, got only 15% of the vote. While P.M. Ecevit and Kemalist pundits professed shock at the election results, a varied spectrum of other commentators and leading businessmen made balanced and forward-looking assessments. The current government under Ecevit will continue as a lame-duck administration until the new AK government receives a vote of confidence in Parliament, probably sometime in early December.

EU and Human Rights

3. In February, March and August Parliament passed extensive reforms intended to meet the political requirements for European Union membership. The EU Commission in its October report praised the reforms, but stated that "considerable further efforts are needed" to bring Turkey into compliance with membership criteria. It recommended that the EU: 1) enhance its support for Turkey's pre-accession preparations, and provide additional resources; 2) revise the Accession Partnership agreement; and 3) extend and improve the functioning of the Customs Union. The Turkish Government criticized the report for failing to give proper credit for the reform effort, but remains committed to EU membership. With strong U.S. support, Turkey is lobbying EU officials and member states. The Turkish Government wants the EU at its December 12-13 Summit in Copenhagen to set a date to begin accession talks. Some EU-member-state leaders have raised the possibility of a "conditional date," contingent upon further reforms.

4. The three reform packages are focused on improving human rights, applying to such areas as free speech, pre-trial detention, and the rights of religious groups, among others.

Parliament abolished the death penalty during peacetime and lifted bans on private courses and TV broadcasts in Kurdish and other non-Turkish languages.

15. The Turkish government does not recognize the ecumenical nature of the Patriarchate in Istanbul. Nor has the government changed its position against allowing the reopening of the Ecumenical Patriarchate's seminary on the island of Halki despite the Patriarchate's continual requests; the seminary was closed in 1971 when the Turkish government nationalized private institutions of higher learning. In October, the Ambassador accompanied a delegation from the Archons of the Order of Saint Andrew the Apostle in New York during a visit to the Patriarchate and Halki and meetings in Ankara.

Economic Situation

16. Turkey's financial situation remains fragile, with the main vulnerability being the country's ability to continue servicing a large sovereign debt burden in 2003. Concerns with the effects of an external shock on their own debt sustainability underlie many Turks' misgivings -- both in private sector and in government -- with an Iraq operation. Turkey has, nevertheless, performed well for the first 18 months under an IMF-backed economic reform program. By year end 2002, inflation will be cut in half (to 34 percent), growth is expected to come in at 4 percent (after a deep recession in 2001), and the banking sector is much better regulated and as a result in a stronger position than it was before the 2001 crisis. Political uncertainty, however, has cost Turkey in terms of higher interest rates on government bonds which will add to Turkey's financing bill next year. The focus now is on the direction of the AK-led government that will emerge in the coming weeks. The expectation in the markets is that the new administration must continue with the existing IMF-backed reform program. Any deviation from this program -- especially on fiscal austerity and on structural reforms -- will again cause uncertainty and interest rates to rise. The new government will have to do everything right in order to retain investor confidence and to avoid a serious financing problem in 2003 -- with or without an external shock.

Foreign Investment

17. Attracting more foreign direct investment is a key element of Turkey's reform program. Turkey currently receives very small flows of foreign direct investment, compared with other emerging market countries. For instance, Poland attracts \$4-5 billion per year on average, while Turkey gets less than \$1 billion (thus far in 2002, Turkey has only received \$180 million in foreign direct investment). Political and economic instability, and unresolved business disputes involving large U.S. companies, have hurt Turkey's business image and limited investment flows. The AK Party has said that improving the business climate and attracting more FDI is a high priority.

Bilateral Trade

18. On bilateral trade ties, our trade is roughly in balance -- each country exports about \$3 billion to the other. In order to boost trade with Turkey, the President has proposed creating a Qualifying Industrial Zone (QIZ); products exported from a QIZ enter the U.S. duty free provided they meet certain conditions. Legislation authorizing QIZs in Turkey is currently pending in Congress. Other key trade issues involve Turkish action to enhance protection of intellectual property rights and to reduce tariff and non-tariff barriers to U.S. agricultural exports.

Energy

19. On regional energy issues involving Turkey, we have seen important progress on the realization of the East-West energy corridor from the Caspian to the Mediterranean, which continues to be a major U.S. policy objective in Turkey. The Baku-Tbilisi-Ceyhan (BTC) oil pipeline is firmly on track,

and is entering the construction phase. The governments of Turkey and Azerbaijan have recently reached final agreement on a gas sales purchase agreement for the Baku-Thilisi-Erzurum, or Shah Deniz, gas pipeline, which likely will be sanctioned by the project owners in February 2003. The U.S. is working closely with the Government of Turkey to help it achieve its goal of becoming a transit country for Caspian gas to Europe.

Greece

10. Relations between Turkey and Greece are better now than they have been in decades. The positive climate grew out of the personal friendship between Greek F.M. Papandreu and former Turkish F.M. Cem and has been largely sustained despite Cem's departure from government in July. Greece appears to have become one of the most vocal supporters in the EU for an accession negotiation date for Turkey, and Greek P.M. Simitis was the first foreign leader to congratulate Erdogan on AK's electoral victory. Nevertheless, potential problem areas remain in the form of: 1) territorial issues related to sea and airspace in the Aegean; 2) continental shelf; and 3) Cyprus.

Cyprus

11. The Cyprus issue has long kept Turkey and Greece at odds. Settlement talks continue under the auspices of the UN. We believe that there is an opportunity for a lasting solution on the island in the context of the EU accession process. Nevertheless, Turkish officials have raised the public specter of a potential "train wreck" that could affect not only the situation on the island but also Greek-Turkey and EU-Turkey relations. The admission of Cyprus to the EU before a settlement has been reached, and before Turkey has received at least a date for accession negotiations, is anathema to Turks. The landslide victory of AK in the Nov. 3 elections, however, could create some room for maneuver. While sympathizing with Turkish sensitivities, AK has criticized "Turkish Republic of Northern Cyprus" leader Denktash for his mismanagement of the "TRNC" and, as a single-party government with a significant mandate from the Turkish public, might be more open to seeking a solution where past Turkish governments have remained intransigent.

Armenia/Nagorno-Karabakh (NK) and Central Asia

12. Armenian diaspora attempts to have Western legislatures pass resolutions condemning what Armenians consider a 1915 genocide by the Ottoman Empire continues to roil relations between Ankara and Yerevan. Moreover, normalization of relations is likely to occur only with the resolution of the Nagorno-Karabakh conflict between Armenia and Azerbaijan, Turkey's closest ally in the region; such a solution would have to resolve the status of NK, which is Azerbaijani territory but currently occupied by Armenia; and the question of a land corridor across Armenia to connect Azerbaijan's main territory with its exclave Nakhcivan. Turkey has had aspirations to play a leading role in Central Asia for the past decade, but its initial attempts after 1991 reminded Central Asian states of the Big Brother approach of Soviet Russia; uneven Turkish economic growth led Central Asians to question the value of a special relationship with Turkey; and some Central Asian states also grew concerned that Turkish promotion of new schools set up in the region under the aegis of Turkish Islamic figure Fethullah Gulen was a wedge to introduce more militant Islam into the region. As a result, Turkey had to scale back its ambitions. Growth of Turkish influence in the region will depend to a great extent on how well Turkey demonstrates its economic vigor and ability to maintain a moderate Islamic identity.

OEF and the Global War on Terrorism (GWOT)

13. Our only predominantly Muslim NATO Ally, Turkey has participated actively in GWOT. In doing so, it has supported our message that GWOT is not a war on Islam. In the aftermath of 9/11, the Turks issued strong public statements condemning the attacks, and, in the face of considerable public opposition, pushed through a parliamentary resolution

authorizing the deployment of Turkish troops abroad for Operation Enduring Freedom (OEF) and the stationing of additional foreign troops in Turkey. Turkey was one of the first countries to offer Special Operations Forces for OEF. Turkey also streamlined customs procedures for equipment used for OEF, granted blanket permission for US OEF aircraft to operate and refuel in Turkish airspace (over 5,000 flights to date), dispatched liaison officers to CENTCOM, EUCOM and to Kandahar, offered the use of additional air bases for operations through Turkey, offered two KC-135 tankers in support of air operations, and increased its force protection posture at US military facilities in the country.

ISAF

¶14. Turkey was one of the first countries to contribute forces to the International Security Assistance Force (ISAF) in Afghanistan. In June 2002, Turkey assumed the leadership role and currently has 1,400 troops on the ground. Turkey's tenure as ISAF lead nation ends o/a December 20 and the Turks are looking to the USG -- their key strategic partner -- to have a successor in place as close to that date as possible. The Germans/Dutch have agreed to take over ISAF command from the Turks, but have said they will not be able to do so until March 2003 at the earliest. The US is working with the Germans and Dutch to speed up the transfer of ISAF command so as to minimize the extra time (and money) the Turks are required to remain in Kabul.

Iraq

¶15. The Turkish government has consistently preferred a peaceful solution or a solution legitimated by new UN Security Council resolutions. A majority of Turks worries about the consequences of military action against Iraq; Turkey vigorously opposes creation of an independent Kurdish state in Northern Iraq. However, should the U.S. decide to initiate military operations, Turkey would likely support us, while insisting on guarantees that its interests be protected and seeking economic compensation for projected losses. AK Party has said Turkey's position will depend on the mandate established by UNSC resolutions. The well-know Turkish concerns include damage to the fragile Turkish economy (especially investment and tourism); the potential for Iraq's disintegration/the emergence of an independent Kurdish state in northern Iraq; Iraqi Kurdish control of Mosul or Kirkuk oil fields; preventing refugee flows into Turkey; and protection of the Iraqi Turkmen population. The Turks will also expect the U.S. to live up to President Bush's January 2002 commitment to PM Ecevit that the US would consult with Turkey every step of the way on Iraq.

NATO

¶16. Turkey continues to view NATO as its strongest link to Europe and therefore places great importance on the Alliance and its continued viability. It supports a robust enlargement but worries that the organization's enlargement may erode NATO's efficiency and ability to act. The Turks also seek to ensure that their own influence in the Alliance is not diluted by the addition of new members and that NATO's presence in Turkey is not trimmed in the process of NATO command structure reform.

ESDP

¶17. Permanent arrangements for NATO-EU cooperation in the form of Berlin Plus are currently stalled due to the lack of an agreement on the participation of non-EU NATO Allies in ESDP in return for guaranteed access to NATO assets. The US, Turkey and other Allies are opposed to ad hoc arrangements that would allow the EU to "deploy" ESDP in the Balkans pending permanent resolution of Berlin Plus. In the meantime, key players, including the UK, Turkey, Greece, and EU HiRep Solana are working to negotiate a deal that will satisfy Turkey's national security concerns and the EU's need to protect its sovereignty of decisionmaking. The Turks will expect US backing on ESDP if they believe the EU is pressing for an agreement that compromises Turkish national interests.

Military Capabilities

118. Turkey spends one of the highest proportions of its GNP among all Allies on defense and is supportive of US efforts to prod other Allies to increase their capabilities. Turkey is undertaking a serious military modernization program over the next several years, but is hampered by the ongoing economic crisis. While Turkey may support the concept of "niche capabilities" in NATO, it likely will continue to invest in its own defense priorities given its perception that threats to Turkey are different than those to other Allies and its belief that NATO (i.e., the Europeans) may not invoke Article V to protect Turkey against Kurdish terrorists.

Arms Sales

119. Bell Textron has been in contract negotiations with the Turks for nearly two years for 50 anti-armor helicopters based on the U.S. Marine Corps' AH-1Z King Cobra, a contract valued between \$1.5-2B dollars. Negotiations have bogged down over Turkish demands that Bell, while only a sub-contractor to Turkish aircraft industries, assume an inordinate degree of risk. We are supporting Bell's efforts to develop a roadmap to reach contract signature by the end of the year. The Turks remained concerned that after contract signature, the sale will get bogged down in licensing and Congressional notification process.

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Indigenous and Transnational Terrorist Attacks
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120. In the aftermath of the Gulf War, the predecessor to the Turkish terrorist group Revolutionary People's Liberation Party/Front (DHKP/C) assassinated four Americans in Turkey and carried out numerous bombings of U.S. targets (mostly private sector businesses, although two rockets were directed toward the Consulate General in Istanbul). Other Turkish terrorist groups with anti-western sympathies include Turkish Communist Party/Marxist Leninist (TKP/ML), Turkish Workers and Peasants Revolutionary Army (TIKKO) and Islamic Greater Eastern Raiders/Front (IBDA/C). A renewed conflict with Iraq could cause these groups to actively target U.S. interests in Turkey. Al-Qaida threats to target U.S. bases in Turkey have been public knowledge for some time. We can also assume Iraqi intelligence operatives could plan subversive operations in Turkey should the Turks offer support to the U.S. initiative in Iraq. The Turkish National Police (TNP) are quite responsive in their role as protector of U.S. diplomatic and military interests in Turkey. TNP has provided enhanced coverage at our two most vulnerable facilities (Istanbul and Adana), closing two city streets bordering each facility. Mission Turkey is confident the TNP will continue their high level of responsiveness for U.S. facilities.

Homeland Security Issues

121. In FY 2002 US Embassy Ankara and American Consulate Istanbul adjudicated approximately 70,000 non-immigrant visa applications -- most from Turks -- and more than 6,000 immigrant visa applications. Ankara and Istanbul also processed around 6,000 Iranian non-immigrant visa applications. Iran's status as a state sponsor of terrorism poses a particular challenge in these cases. Embassy Ankara last year submitted more than 295 names of potential terrorists for inclusion in the Consular Lookout namecheck system. This year we have added some 300 more names to the system. The use of supplemental application forms and other measures to improve our ability to scrutinize each application has lengthened the entire process. While consular officers offer as expeditious service as possible, their primary responsibility is to carry out U.S. law and to ensure those who receive visas will not pose a threat to the U.S. As new Homeland Security visa requirements are implemented, such as the inclusion of biometric data on visas, we will have new challenges to process.

Security Issues for Mission Turkey

122. Embassy Ankara has outgrown its 1950's era chancery.

Driven by intense U.S. policy interests in Turkey, staff continues to expand but we have no more room. Three buildings on the compound have minimal setback to Paris Caddesi and are a major concern. Efforts are underway to consolidate the staff of the Public Affairs Building (located in a renovated apartment building outside of perimeter wall) onto the compound. This will improve our security and allow us to concentrate our resources on the chancery compound. The ongoing facility space plan will relocate many offices as far away from the perimeter as possible to reduce overall vulnerability. Current space conditions necessitate the use of the two annex buildings along the perimeter. While we have deployed local guards and TNP to reduce the perimeter threat, a longer term solution is needed. The Consulate in Istanbul will move from the current historic but exposed quarters to new office building, meeting security standards, next spring.

Facility to House Consulate Adana

123. The lease for the current Consulate expires in 12/02 and landlord does not wish to renew. Embassy team began an exhaustive search for a new Consulate site for Adana in 2000/2001 with no success. The commercial real estate market in Adana cannot meet our physical security standards for this type facility. A possible solution we explored using space as a tenant in a wing of the Hilton Hotel reconstructed to DOS standards recently disappeared. We continue to experience difficulty finding options to relocate our Consulate in secure offices.
PEARSON